**This is not a customer document and is intended for Financial Advisers only**

# PRIIPs – Frequently Asked Questions

## *Background*

**What do PRIIPs and KID stand for?**

PRIIPs are "Packaged Retail and Insurance-based Investment Products" and refer to investment products sold to retail investors.

A KID is the "Key Information Document", produced by the Product Manufacturer and given to a client pre-sale for PRIIPs.

**What is the PRIIPs legislation?**

This is new EU regulation covering disclosures for retail investment products. It applies across the EU from 1 January 2018. It does not replace current local disclosure requirements but is in addition.

**Will this make it easier to compare products and funds from different providers?**

The intention of the legislation is to standardise the way product charges, underlying risks and expected returns are presented to retail investors, with all providers using the same methodology for the calculations and presenting results in the same format. It is intended to enable retail investors to better compare investment products particularly in relation to these areas

**What types of policies are included?**

All wrapped and/or packaged policies and investment products sold to retail investors are covered by PRIIPs. For Irish Life, this covers lump sum investment bonds and regular savings products. Products not covered by PRIIPs include, for example, all pensions, direct purchase of shares or bonds, bank accounts and products only available to professional investors (as defined by MiFID II)

**When does it apply?**

PRIIPs applies to all investment and savings new business issued on or after 1 January 2018. It does not apply to policies taken out prior to 1 January 2018. Top-ups or switches on existing policies are also not in scope so therefore not subject to the requirements

**Who has to give the KID to the client and when?**

Under the PRIIPs regulations, the person advising on or selling the PRIIP must provide the KID to the retail investor pre-sale. Therefore you, as the broker, are responsible for giving the KID to the client.

**How can I provide the KID to my client?**

Under the legislation, the default option to provide the KID is by paper. If you don't have the client's email address, you should provide a paper KID.

**Where can I find the KID?**

Irish Life are obliged to make all KIDs available on the Irish Life website - www.irishlife.ie. These can be found in the 'Fund Centre'. The KIDs will also be available for brokers on the MyBiz section of www.bline.ie based on the specific products available to you.

**Can I just tell clients to go to the Irish Life website?**

No. The paper version of the KID is the default option. Under the PRIIPs regulations, you can only tell clients to go to the Irish Life website if the website version is chosen by the client, and to do so is appropriate in the context of the business conducted between you and the client. If you wish to refer clients to go to the Irish Life website, you will need to satisfy yourself that it is appropriate in this context, and you must also retain evidence of the client's consent to obtain the KID from the Irish Life website.

**Do I need to keep a copy of the KID on file?**

You do not need to keep a copy of the KID on file. However, if requested by the Central Bank, you need to be able to demonstrate that you have complied with your obligation under the PRIIPs regulations and have provided the relevant KID to the client in the appropriate format. Keeping a copy of the KID on file may help in this regard.

## *Key Information Document*

**What is the format?**

The KID is a standard 3 page A4 document. The layout and content is prescribed in the legislation.

**Is there a "plain English" version of the KID?**

No. The KID is a standard document with a prescribed layout and content. PRIIPs providers are not allowed to vary the layout and most of the content is prescribed

**What happens to the generic CIN ("Customer Information Notice")?**

The Central Bank of Ireland have removed the requirement to provide generic projected values in the CIN where it is not practical to provide a customer specific CIN pre-sale. This covers products that a KID is available for - investment bonds and regular savings products.

**The client is investing an amount greater than €10,000. Can the KID reflect this?**

No. The KID is a standard document and the invested amounts used in the calculations are prescribed in the regulations. These are €10,000 for a lump sum investment and €1,000 per annum for regular savings.

**Will Irish Life send a client specific KID with policy docs?**

No. There is no provision under the PRIIPs regulations to produce client specific KIDs. The KID is a standard document and Irish Life are not allowed change the format. The client specific CIN will continue to be sent to clients with their policy documents providing full details on their investment or regular savings. The generic CIN will continue to appear in client literature but it will not include any projected values or the remuneration table.

**Is there a KID for each fund?**

Yes. Irish Life is producing a KID for each fund option currently available under each product. A KID will not be produced or available for funds that are closed and no longer available.

**Do I need to give a KID to all my clients?**

No. The KID only applies to investment bonds and regular savings products sold after 1 January 2018. It does not apply to existing clients or to new clients only taking out a pension or protection product (including ARFs and AMRFs).

**When I do a fund switch do I have to give a new KID to the client?**

No. PRIIPs only applies for new business written on or after 1 January 2018. It does not apply to existing business and policies, including fund switches or top-ups.

**How often is the KID updated?**

The KID must be updated and revised at least once a year. It must also be updated more frequently than that if there are significant changes to the SRI ("Summary Risk Indicator"), expected returns or costs.

## *Costs and Charges*

**Are costs and charges increasing?**

There is no increase in the costs and charges incurred. What is changing are the costs and charges that are included in the KID and disclosed to clients. Previous disclosures covered the costs and charges levied by Irish Life directly, such as the Annual Management Charge. Indirect costs such as those incurred when buying and selling the underlying assets were not included in previous disclosures. The charges previously disclosed by Irish Life were in line with applicable regulations and guidance.

**What costs are included in the KID?**

All costs incurred by a client under their product are included in the KID. This includes costs on entry such as reduced allocations, ongoing charges such as the fund management fee, custodian and legal fees, costs of trading the underlying assets, and any exit penalties. The figures are based on what has actually been incurred on the fund over the past 3 years. If performance fees have not been deducted over this period, they will not be presented on the KID.

**How do costs compare with that required under current disclosure regulation?**

Costs will vary and differ between the KID and current disclosures depending on the fund. For many passively managed indexed funds, there will be no significant difference between the charges. For actively managed funds, costs will tend to be higher on the KID due to the new transaction costs included in the KID figures. This is particularly the case for property funds where the costs associated with buying and selling properties are especially high. For many externally managed funds, costs will be lower on the KID as we are obliged to take the manager's most recent charge figure and not an average or allow for potential variable charges. The return shown on fund factsheets will not change as the return already allowed for all costs and charges incurred on the fund, including all those now shown on the KID.

**I thought the TER/OCF ("Total Expense Ratio" and "On-going Charges Figure") included all costs? Why is it now increasing?**

The TER and OCF are a measure of costs and charges, and which charges to include are set out in regulations and guidance. Irish Life has fully followed these regulations when calculating the TER in the past. The main difference between the KID costs and the TER is that transaction costs were not included in the TER calculation in the past. Transaction costs are now in the KID calculation, potentially leading to higher cost disclosures.

**What approach has Irish Life taken towards the charges used in the KID for a product where there are a range of charges available?** We believe the PRIIPs regulations require the KID to be prepared based on all charging structures on a product or on the highest possible charges available including commission paid to the adviser. As we provide brokers with a range of commission options, we cannot know in advance which one you will choose and so are obliged to assume the maximum when producing the KID.

**Is commission separately shown in the KID?**

No. The KID only shows the charges incurred by the client. Irish Life pays commission to you as the broker out of the overall policy and product charges and any commission payment to you is not separately shown on the KID.

**Do I have to disclose additional charges/costs?**

If you charge a client specific fee or other charges for your services or advice, and these are not already included in the KID, then you must disclose these additional costs. These include any hourly or fixed fees agreed between you and your client.

**Why is the levy included?**

The levy is a charge imposed by the government on all life assurance products, including investment bonds and regular savings.  As the levy reduces the amount invested in funds and assets, it is included in the entry costs of the product.

**Why isn't the exit tax included?**

The exit tax payable depends on the tax status of the investor and policyholder.  The exit tax will not be payable by all clients – e.g. tax exempt charities etc.  Also, there is no exit tax on non life-wrapped products where CGT ("Capital Gains Tax") is payable instead, and this is payable by the investor and not by the product provider.  Thus, to ensure comparability of products across different tax treatments, we have not allowed for the exit tax.

**Why does my fund show higher charges than the same fund elsewhere?**

The KID includes costs and charges that have not previously been included in the applicable disclosure requirements.  This includes, in particular, transaction costs and performance fees. Previously, these costs were not included in the calculation of costs for disclosure purposes.

In addition, the KID shows charges as a "Reduction in Yield" (RIY) rather than actual charges.  The RIY is the impact on the expected return of the total charges and how much this return is lower because of the charges.  The RIY also depends on how high the expected return is – higher expected returns will lead to a higher RIY than lower returns, even for funds with the same charges.

**Is the RIY in the KID comparable with the RIY in the CIN?**

Not directly.  The methodology used to calculate the RIY under the KID is different to that used for the RIY in the CIN.  In addition, the KID takes account of additional costs and charges that are not applicable for the CIN calculation.  These include transaction costs which are now part of the KID. For these reasons, the RIY under the KID and the CIN will be different.

## *Risks*

**Why has the risk rating changed?  Why is the risk rating not ESMA?**

The PRIIPs legislation covers a wide range of investment products available to the public, including those where it is possible to lose more money than originally invested.  Accordingly, the EU Commission wanted a risk scale to capture these very high risk funds and a new risk scale was needed.  The existing ESMA risk scale used for UCITS funds did not adequately capture these high risk funds.

**How is the risk rating calculated?**

The risk rating under the KID is composed of two elements – the market risk and credit risk.  Market risk is the volatility of the fund's price over the last 5 years.  Credit risk looks at the credit rating of banks providing cash deposits and governments and companies issuing fixed interest bonds.  The two factors are combined to produce the “Summary Risk Indicator” or SRI. The riskier a fund is, the higher the SRI will be.

**Is the Irish Life risk scale changing?**

The scale used by Irish Life to indicate the volatility of funds managed by ILIM and Setanta is not changing. What is changing is the label used for each fund. The Irish Life scale will no longer run from 1 – 7 but instead will run from IL1 – IL7. Under the PRIIPs regulations, any marketing or fund material issued by Irish Life cannot contradict or conflict with the information in the KID and this means we can no longer label our volatility scale of 1 – 7 as this is used in the KID. Accordingly, we have put “IL” in front of the Irish Life risk scale to distinguish it from the SRI scale on KIDs.

## *Expected Returns*

**How are the expected returns calculated? How are the return scenarios calculated?**

The expected future returns are modelled based on actual performance data for the last 5 years for each fund. This data is used to create expected future returns for the periods shown in the KID. As actual past performance is used to calculate expected future returns, the projected figures shown on the KID will change from year to year as actual historic returns change. It also means that after periods of good returns, the projected values on the KID will be higher than after periods of poor or negative returns.

**Will expected returns change each year?**

Yes. As the expected future returns are based on actual performance over the previous 5 years, the expected returns will change and be updated each year.

**What’s with the stress scenario for cash funds? Why is it higher than the favourable scenario?**

Under the PRIIPs regulations, different formulas are used to calculate the expected returns in the stress scenario, compared to the returns under the favourable, moderate and unfavourable scenarios. The different formulas mean that for cash funds, the expected returns and values under the stress scenario can be higher than the values shown elsewhere on the KID.

**Is the expected range of returns the same as the current Irish Life document?**

No. The expected range of returns shown in the current “MAPS Range of Returns” flyer is based on Irish Life’s own methodology. The range of returns shown in the KID is based on the formulas and methodology set out in the PRIIPs regulations. As these methodologies are different, they produce different ranges of returns and are not comparable.

**Why does my fund show different returns than the same fund elsewhere?**

Different regulations prescribe different returns to be used in various client communications. The expected returns on the KID are based on the PRIIPs methodology and are based on actual returns over the previous 5 years. The returns shown in a customer specific CIN are based on assumptions and guidance issued by the Society of Actuaries in Ireland and are set for each asset class, and are not based on historic performance. The returns shown on Irish Life factsheets are the actual return on the fund after all costs and charges have been allowed for.

## *Other*

**How did you calculate the recommended holding period? Why is 7 years used for the recommended holding period?**

Irish Life recommends that any investment bond or regular savings product is held for at least 5 years. This is normally the period for which any exit penalties may apply. The legislation required all product manufacturers to state a recommended holding period, even for open ended products. A recommended holding period of 7 years was chosen because it gives investments time to avail of the long terms returns typically provided for on investment bonds and regular savings so that investors are not overly exposed to short-term market movements. Whether or not it is appropriate for a client to exit the investment at any point is as always dependent on personal circumstances and investment return.

**Is the recommended holding period a minimum?**

No. Irish Life recommends that any investment bond or regular savings product is held for at least 5 years. There is no minimum investment period on any Irish Life products, although we recommend that clients invest for at least 5 years in order to avail of the long terms returns and so as not to be overly exposed to short-term market movements.

**Is anything else changing?**

The Irish Life application form will change. Confirmation will now be required from both the broker and the client that they have given and received the KID in accordance with the regulations. The existing declaration related to domestic life disclosure requirements will remain unchanged.

New application forms will be available before 2 January. We will accept all old application forms where the client signature is dated on or before 31 December. New application forms must be used where the client signature is on or after 1 January 2018.